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MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2017/2018

BAC1634 – FINANCIAL ACCOUNTING AND REPORTING 1

(All sections / Groups)

01 JUNE 2018
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 7 pages with 4 Questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

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QUESTION 1

Part A

The Framework can also be described as a theoretical base, a statement of principles, a philosophy and a map. It should be noted that the Framework is not an accounting standard, and where there is perceived to be a conflict between the Framework and the specific provisions of an accounting standard then the accounting standard prevails.

Required:

i) Explain why there is a need to have an international conceptual framework.

(5 marks)

ii) Discuss the extent to which an international conceptual framework can be used to resolve practical accounting issues.

(5 marks)

Part B

The Conceptual Framework for Financial Reporting requires an entity's financial statements to report the substance of transactions into which the entity has entered. Preparers of financial statements must determine the substance of the transaction and whether any resulting assets and liabilities should be included in the statement of financial position. These requirements came about partly as a result of concern over arrangements made by companies whereby assets and liabilities were omitted from the statement of financial position.

Required:

i) Explain the reasons why companies may wish to omit assets and liabilities from their statement of financial positions.

(5 marks)

ii) Explain the advantages of a requirement to report substance over form.

(5 marks)

(Total: 20 Marks)

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QUESTION 2

Ali, Bryan and Chan have been in partnership for few years. Their sharing profits and losses ratio are 3:2:1 respectively. However, Ali, Bryan and Chan decided to retire on 31 December 2017 since all of them are old. They agreed to dissolve the partnership on the same date.

The following summarized Statement of Financial Position of the partnership as at 31 December 2017.

	RM	RM
Premises		50,000
Motor vehicle		40,000
Inventory		30,500
Accounts receivable		50,000
Cash		40,000
		210,500
Accounts payable		25,000
Capital Accounts		
-Ali	90,000	
-Bryan	70,000	
-Chan	25,500	
		185,500
		210,500

After several discussions, they agreed to dissolve the partnership on the following term:

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1. The asset was revalued and sold as follow:

	RM
Premises	60,000
Inventory	29,500

2. It was agreed that Chan is going to take over Motor Vehicle at a value of RM45,000.
3. The partners agreed to give discount 10% to all of their accounts receivable. All of the accounts receivable settle the amount due.
4. The accounts payable grant the partnership RM1,000 discount in total.
5. The costs of dissolution will be RM2,500.
6. If by any chance, Chan is unable to meet his liability to the partnership out of his personal funds, Ali and Bryan agreed to bear Chan's capital deficiency based on income ratios that exist.

Required:

Prepare the following accounts:

i) Realisation accounts

(9 marks)

ii) Partner's capital accounts

(7 marks)

iii) Cash accounts

(4 marks)

(Total: 20 Marks)

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QUESTION 3

Part A

Ah Sin Bhd has 10,000,000 ordinary shares of RM1.00 each. During the beginning of the accounting year 2017, the company issued:

RM2,000,000 of 10% convertible loan stock, convertible in five-year time at the rate of 1 share per RM20 stock.
RM1,000,000 of 8% convertible loan stock, convertible in one-year time at the rate of 1 share per RM10 stock.

The total profit after tax for the year ended are RM2,500,000 and RM2,000,000 for the year ended 2017 and 2018 respectively.

Assumed the tax rate is 30%.

Required:

i) Calculate the basic EPS for 2017 and 2018 (4 marks)

ii) Calculate the diluted EPS for 2017 and 2018 (6 marks)

Part B

Star Cruise operates cruise ships that ply the South China Ocean. One of its ships was acquired on 1 January 2012 for a total cost of RM300 million. The ship's components are as follows:

Component	Cost (RM million)	Useful life
Engine	70	10 years
Hull and decks	150	30 years
Furniture and fittings	80	16 years

On 1 January 2017, it was discovered that there was an unexpected level of engine trouble and the company decided to replace the engine with a new engine at a cost of RM100 million. The expected life of the new engine is determined to be ten years. The

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old engine is sold to the third party on 31 December 2017 without any gain or loss on disposal.

At the same time the company did upgrade its furniture and fittings at a cost of RM10 million. The remaining life of the furniture and fitting was revised to thirteen years as at 1 January 2017. The company also repainting the ship at a cost of RM1 million.

Required:

Calculate the depreciation charge for the year ended 31 December 2017 and disclose the carrying amount of the ship.

(20 marks)

(Total: 30 marks)

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QUESTION 4

Part A

Sprintla Bhd sells and leases out truck for construction work. On 1 January 2017, Sprintla Bhd entered into a three-year non-cancellable lease with DPS Realty Bhd on the following terms:

- Lease rental is RM56,000, payable annually in advance.
- The initial direct costs of RM8,400 incurred in commission and legal fees are to be borne by Sprintla Bhd and charged to the statement of profit or loss on a systematic basis.
- There is a guaranteed residual value of RM40,000 (by the lessee).
- Interest rate implicit in the lease with DPS Realty Bhd is 20%.
- The fair value of the truck is RM150,748.

On 1 January 2017, Sprintla Bhd entered into agreement with Shantawood Bhd. Shantawood Bhd had purchased a truck from Sprintla Bhd, but having run into cash-flow problems, the company arranged a sale and leaseback of the truck to Sprintla Bhd. This truck has a net book value of RM140,000.

The arrangement is that Shantawood Bhd will sell the truck to Sprintla Bhd for RM124,576 and immediately lease it back for four years at a rental of RM36,500, payble yearly in advance. It was agreed that the truck should revert to Sprintla Bhd at the end of the four-year period when its estimated scrap value is nil. The lease is non-cancellable and interest rate implicit in the lease is 10%. Shantawood Bhd depreciates truck on a straight-line basis. (show all the necessary working)

Required:

i) In respect of the lease with DPS Realty Bhd,

   a. Draft the entries that will appear in the statement of profit or loss of Sprintla Bhd (lessor) for the year ended 31 December 2017.

   (2 marks)

   b. Draft the entries that will appear in the statement of financial position of Sprintla Bhd as at 31 December 2017 and 2018.

   (5 marks)

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ii) In respect of the lease with Shantawood Bhd,

a. Explain how they should treat the transaction between Sprintla Bhd and Shantowood Bhd and why.

(4 marks)

b. Draft the journal entries to record the transactions in the books of Shantawood Bhd (lessee) for the year ended 31 December 2017.

(9 marks)

Part B

i) Hotel Bhd acquired a premise on 1 January 2017 which it intended to sell. The premise was obtained as a result of a default on a loan agreement by a third party and was valued at RM500,000 on that date. It was offset against the loan.

The property was in a state of disrepair and Hotel Bhd intended to complete the repairs before selling the premise. The repairs were completed on 31 January 2018. The premise was sold for RM800,000 on 25 March 2018. As at December 2017, the premise was classified as 'held for sale' and shown at net of sale proceeds of RM800,000. Premise was depreciated at 10% per annum on a straight-line basis and no depreciation had been charged in the year.

Hotel Bhd year-end is 31 December.

Required:

Discuss the accounting treatment of the premise.

(5 marks)

ii) Zass Bhd had a property with a carrying amount of RM800,000 as at 31 March 2017. However, the property is ceased to be used because of a downturn in the economy. The company had decided on 30 June 2017 which was its financial year-end, to maintain the property in working condition in case of a change in economic conditions. However, the property sold by auction on 30 July 2017 for RM1,000,000.

Required:

Discuss the accounting treatment of the plant as at 30 June 2017.

(5 marks)
(Total: 30 marks)

End of page.